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PUBLIC EMPLOYEES' PENSION SYSTEM

OF THE

STATE OF MONTANA

PLEASE RETURN

FIRST ANNUAL REPORT



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REPORT AS OF JUNE 30, 1946

For the period beginning July 1, 1945, and ending June 30, 1946,
as required by the Retirement Law as passed
by the 1945 Legislature.

BOARD OF ADMINISTRATION

SAM W. MITCHELL, Secretary of State, President
BARCLAY CRAIGHEAD, Chairman of U.C.C.; Vice President
R. V. BOTTOMLY, Attorney General
JOHN J. HOLMES, State Auditor
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MALCOLM BOWDEN, Right of Way Agent, Highway
Commission

FLOYD E. YOUNG, Actuary
WILLIAM B. McRAE, Acting Executive Secretary



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HISTORY

The 1945 Legislature enacted the Public Employees Retirement Law, which was signed by the Governor in March, 1935. Its effective date was set as July 1, 1945. Beginning at this date all public employees in service on June 30, 1945, had the option of becoming members of the system or not. By December 31, 1945, 1,115 employees had become members and by the end of the first fiscal year the system had 1,677 members, consisting entirely of State employees. No employees of political sub-divisions voted to become members during the first year of operation. However, in the last five months twelve political sub-divisions have voted to participate, giving benefits of the retirement system to 310 of their employees. In the last six months state employees covered by the act have increased to 1,984 making a total of 2,294 public employees now participating in the plan.

One of the reasons this number is not larger is the fact that while the system provided for membership beginning July 1, 1945, no benefit payments are presumed to be made before July 1, 1947, due to the fact that sufficient data was not available for the Legislature to make an immediate appropriation for setting up the system. Had immediate benefit payments as well as membership contributions been possible from the inception of the law, it is firmly believed that a much higher percentage of state employees would have joined as of July 1, 1945.

A statement of the Income and Disbursements of the Public Employees Retirement System for the first fiscal year is followed by the assets and liabilities. The assets and liabilities are set forth on an actuarial reserve basis.

All pension liabilities are calculated on the 1937 Standard Annuity Table with two and one-half per cent ($2\frac{1}{2}\%$) interest. Rates of withdrawal and disability assumed were those for teachers in Montana for the period—1937 to 1940. The next valuation will be made on the actual experience of the Public Employees' Retirement System, but it was found to be impossible to obtain the necessary data to compile reliable rates from the records available at the present time.

Life Insurance reserves were calculated on the basis of a group exposure using the American Men Table of Mortality and two and one-half per cent ($2\frac{1}{2}\%$) interest.

A reference to the assets and liabilities reveals a deficit in the interest earnings for the first year. It is felt that this is to be expected and not serious because it is almost impossible to invest the money month by month as received. An adequate bank balance must be maintained. As the various funds increase the ratio of an average bank balance to the total decreases, it is felt that the total earnings on all funds in the future will be sufficient to continue the two and one-half per cent ($2\frac{1}{2}\%$) interest rate currently being used.

An auxiliary statement follows showing the accrued liability of \$17,934.72 on a cash income and disbursement basis as of November 30, 1946. This accrued liability occurs because of the fact that the law

provides for State three (3) per cent contribution beginning July 1, 1947; hence, no funds have been received from any State Department as yet with which to pay these Claims.

Had the State participated and paid the three (3) per cent of salaries since July 1, 1945, it is estimated that the Public Employees Retirement System would have received \$122,330.41 in the 17-month period these claims have occurred.

Breaking this amount down to the various departments within the State it is interesting to note that \$75,632.17 of this total would have been contributed by Departments such as the State Highway Commission, Unemployment Compensation Commission and Fish and Game Commission. In all these departments the funds, if received, would not have been out of the State Treasury. Hence, the balance of \$46,698.24 would have been the total to be paid out of state funds.

Practically all of the Departments have allocated the necessary amounts to participate in the Retirement System since its inception. The recommendation is made, therefore, to the legislature that an amendment be made to the Law allowing State participation as of July 1, 1945. The amendment would allow immediate payment of all outstanding current liabilities. On the other hand if this amendment is not made \$68,129.39 of the \$75,632.17 known to be available will presumably revert back to the Federal Government because Federal funds cannot be contributed unless there is also state participation.

Because of the rather severe surrender charge when leaving state service many employees at the younger ages and lesser amounts of prior service did not choose to join the System. For these reasons the average age is higher than it should be. This also applies to the average number of years of prior service. It automatically follows that the proportion of expected retirement over the next biennium, 1947 through 1949, will be much higher proportionally to the total number of members than it otherwise would have been.

Certain administrative difficulties in the present law also kept down the number of political sub-divisions that joined the System over the last 17 months.

Hindsight is always better than foresight and after administering the Law since its effective date in 1945, the Board is recommending that the following amendments be adopted by the legislature. It is certain that with their adoption the real intent of the legislature in creating this Retirement System can come much nearer to 100% realization than it can possibly do as the law now reads.

AMENDMENTS

1. **RESOLVED:** That we should seek to amend the Public Employees' Retirement Act, so as to provide for the inclusion into the System by operation of law all County, City, School Districts, other public agencies and political sub-divisions of the State, as a part of the comprehensive plan of retire-

ment allowances, substantially in the form set up under the Oregon Law. (Section No. 6, No. 7, and No. 8)

2. **RESOLVED:** That we should seek to amend the Public Employees' Retirement Act so as to provide for a vested right accruing to a member after acquiring ten years of service, substantially as it appears in the 1945 Amendments to the California Law. (Section No. 18(m), No. 19(d))
3. **RESOLVED:** That we should seek to amend and clarify Section No. 5(f) of the Public Employees' Retirement Act so as to clearly express the intent that a member of the System should not be entitled to withdraw from membership therein after July 1, 1945, so long as such member was employed in covered public employment and further provide for a limitation clause fixing a definite time (July 1, 1948) after which a public employee, signing a statement of withdrawal, may not change his or her attitude and receive credit for prior service.
4. **RESOLVED:** That we should seek a Legislative Act which will authorize and direct each State Department or Agency to pay the 3% State portion of contributions from its current available appropriated funds for the biennium July 1, 1945, to June 30, 1947, and instruct such State Departments as do not have sufficient currently available appropriated funds for such biennium to submit a request and showing as to the amount necessary, as a special deficiency appropriation.
5. **RESOLVED:** That we should seek an amendment to the Public Employees Retirement Act similar to the Amendment passed at the last session of the Legislature to the Teachers Retirement Act. The amendment to provide that instead of 3% of salaries the contribution rate of State Departments and participating Public Agencies to the Public Employees Retirement Fund by 4% of salaries of members of the Retirement System. Provided further that all funds so contributed by State Departments and Public Agencies be credited to the Pension Reserve Fund. That all Pension, Disability and Death Benefit payments not provided for in the law by a member himself would be paid out of said Pension Reserve Fund. Because of the 4% contribution from the employer all prior service by any employee rendered either to the State or any political sub-division of the State be considered prior service for retirement requirements with the intent and meaning of the Retirement Law.
6. **RESOLVED:** That we should seek an amendment to Section No. 18(m) of the Public Employees' Retirement Act so as to strike out the "25% hold back" clause and enact in lieu thereof "10%".

7. **RESOLVED:** That we should seek an amendment to the Public Employees' Retirement Act, Section No. 14, which establishes a Board of Administration, so that elective State officers shall not be required to serve thereon, and in lieu thereof provide for a board of administration consisting of five members appointed by the Governor, and that compensation for services rendered for traveling expenses and sustenance shall be provided in the amendment.
8. **RESOLVED:** That we should seek an amendment to the Public Employees' Retirement Act, Section No. 2(r) to take the five highest years' salary instead of the last five years' salary in computing the retirement allowance and the disability allowance.
9. **RESOLVED:** That where any employee who is employed by the State of Montana and under the state supervision and has a portion or all of his or her salary paid from Federal Funds but is not subject to the Federal Retirement System, such employee shall be entitled to all benefits and will be required to make all employee contributions under the Employees Retirement System of the State of Montana based upon the full salary received by such employee, including that portion of the salary paid from Federal funds and that the State of Montana will pay 4% on said salaries.

The provision of Section No. 1 shall be retroactive to all employees affected, upon the employee paying into the said System the contributions would have been required had such employees full salary been paid by the State of Montana, together with the necessary interest accumulations.

INCOME AND DISBURSEMENT STATEMENT
Combined With
ASSET AND LIABILITY STATEMENT

INCOME:

State Appropriation	\$ 35,000.00
Annuity Savings Fund	161,419.83
Membership Fee Fund	1,797.00
Interest on Bonds	625.00
Pension Accumulative Fund	399.60

Total Income	\$ 199,241.43
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DISBURSEMENTS:

Annuity Savings Refunds	\$ 3,608.74
Membership Fee Refunds	120.00
A.S.F. Transferred to P.A.F.	399.60
Salaries	10,965.96
Retainer Fees	2,400.00
Furniture and Equipment	3,466.87
Travel Expense	464.35
Printing and Postage	1,460.56
Miscellaneous	1,889.14

Total Disbursements	\$ 24,775.22
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Balance on hand 6/30/46	\$ 174,466.21
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LEDGER ASSETS

***ON DEPOSIT WITH STATE TREASURER:**

*Cash	\$ 49,466.21
*Bonds (U. S. Gov't. Series "G")	125,000.00

Total Ledger Assets	\$ 174,466.21
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NON-LEDGER ASSETS

Accrued Interest	\$ 166.67
Present Value Future State Contributions	3,196,270.09

Total Non-Ledger Assets	\$3,196,436.76
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Total Assets	\$3,370,882.97
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LEDGER LIABILITIES

Annuity Savings Fund	\$ 159,228.93
Pension Accumulative Fund	399.60
Reserve for Expense	16,030.12
Net Deficit on Interest Paid	1,192.44

Total Ledger Liabilities	\$ 174,466.21
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NON-LEDGER LIABILITIES

INCURRED CLAIMS:

Life Insurance	\$	4,251.53
Retirement		<u>0</u>
Disability		10,077.13

Required State Reserve for Prior and

Creditable Service: Life Insurance	4,261.07
Service Pensions	3,037,448.06
Service Disability	<u>140,398.97</u>

TOTAL NON-LEDGER LIABILITIES	\$3,196,436.76
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Total Liabilities	\$3,370,882.97
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This report to the Governor, The Board of Control and the Legislature is respectfully submitted by the Retirement Board with the sincere belief on the part of every member that if the recommendations are approved our Retirement System will be more nearly on a par with the Retirement Systems of other Public Employees Retirement Systems throughout the nation.

DATE DUE



